HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. # Ranking Democratic Member

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Bush Budget Diverts Social Security and Medicare Surpluses

Dear Democratic Colleague:

I commend to you the attached editorial from the March 5 edition of the *Washington Post* regarding the budget outline that President Bush submitted to the Congress last week. While the President's outline leaves ambiguous many crucial questions about the budget, the editorial points out that the President's $2 trillion tax cut clearly will undermine Social Security's and Medicare's long-term viability.

The President's budget violates the bipartisan consensus, reaffirmed only a few weeks ago by a near unanimous House vote, that all of the Social Security and Medicare surpluses should be saved to fulfill the ***existing*** commitments of those two programs. The President saves only part of the Social Security surplus. And he argues that the Medicare surplus does not exist, while simultaneously putting this supposedly non-existent Medicare surplus into a reserve to be spent on other things.

Social Security and Medicare surpluses by themselves are insufficient to meet existing benefit commitments. Projected insolvency of these two programs means that they will need resources ***in addition*** to the surpluses currently accumulating. The Bush budget's claim that the Social Security and Medicare surpluses can be tapped now to somehow fund privatization and additional benefits for prescription drugs is double counting, pure and simple.

The President's excessive tax cut will force cuts to many priority programs, and it is not surprising that he has declined to specify what those cuts are. However, the most worrisome program cuts the tax cut will trigger are in Social Security and Medicare.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member

The Washington Post

AN INDEPENDENT NEWSPAPER

Spinach Before Dessert

THE BUDGET outline that President Bush sent Congress last week implies much deeper future spending cuts than administration rhetoric suggested. Some of the deepest—and least discussed—would occur in Social Security and Medicare. The outline accurately describes the perilous long-term financial condition of these programs. That peril could be eased significantly if some of the money the president wants to use for a tax cut were diverted to them instead—if, to use the Clinton phrase, the Bush administration would "save Social Security" and Medicare first.

But it has put the tax cut first. The president and his advisers suggest they have no choice—that they have set aside as much of the budget surplus as they technically can for the next 10 years for the programs for the elderly and still have money left over. They say there's a limit to how far the debt can be sensibly reduced, and that, apart from a tax cut, there's no other way to save the money—keep it from being spent—until it will be needed. But is that explanation the complete truth?

It's likely that they could pay down a lot more debt than they newly claim. And this is not a budget that seeks to rescue Social Security or Medicare. If anything, the administration's proposals would worsen the plight of the programs. The budget outline rightly notes that Social Security's present path is "unsustainable"; the revenues in prospect won't remotely cover the cost of the baby boomers' retirement. But the administration would *reduce* those revenues. For younger workers, the president wants to partly "privatize" Social Security—transform it into a blend of traditional benefits and personal investment accounts—while preserving the existing system for older workers and those already retired. The problem is how to finance both systems at once. The outline suggests anew that the administration would take at least some of the money for the new accounts from the existing Social Security surplus. But that surplus is already inadequate to cover prospective costs. How, having deepened the hole, would they fill it? Significant benefit cuts is the unspoken answer.

Supplementary savings accounts might indeed be a good hedge against eventual cuts in Social Security benefits. But the right way to begin setting them up is not to draw down Social Security reserves. The surplus general funds that the president would use to finance a tax cut mainly for higher-income people could be used instead to finance savings accounts for families across the board. That, too, would be a tax cut or could be couched as one. It just wouldn't benefit the same people. That's the underlying issue—not a complicated question about the best way to reduce the debt or restructure Social Security, but a simpler one: in dividing up the expected surplus over the next 10 years, who wins?

The Medicare pattern is similar. The hospital part of the program, financed by the Medicare share of the payroll tax, is in surplus. That, too, will disappear when the boomers retire. The budget outline rightly observes that in the long run Medicare will become a major drain on existing resources. Yet once again the administration proposes dipping into existing reserves rather than augmenting them. It would spread the payroll tax even thinner—begin using it to cover not just hospital but other Medicare costs, beginning with a possible new drug benefit. By shifting costs to the payroll tax, it would free up general revenues, thus making it seem easier to finance the president's tax cut. But the Medicare trust fund would go bankrupt sooner.

The administration again says it has no choice; what else to do with the surplus? But the world wouldn't end if it, too, were used for a couple of years to pay down debt, pending the program's possible reform. Modernize the Medicare benefit structure, make whatever structural changes seem likely to make the program more efficient and feather the cost, then finance it. That's when Congress will know how large a tax cut it can afford.

The president is proposing a large tax cut mainly for the rich that would leave the government without sufficient resources to cover enormous costs that his own budget clearly identifies. It's the wrong policy. His administration should tend to the programs first; eat its spinach, then dessert. This budget is the other way around.